RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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August 23, 1989 **LETTER 1024**

July 28 DJIA 2635.24; PTI 3169; A-D Ratio -6.25
Aug. 4 DJIA 2653.45; PTI 3175; A-D Ratio -5.87
Aug. 11 DJIA 2683.99; PTI 3184; A-D Ratio -5.71
Aug. 18 DJIA 2687.97; PTI 3195; A-D Ratio -5.92
Dow Yield: 3.44; Dow P/E: 11.8; DowPow: 1105
Dow Book Value: 1075; Dow 200-day MA: 2345
Percentage of Undervalued Blue-chips: 13%

THE PICTURE: The ways of Wall Street and the stock market are mysterious indeed. On April 18 (more than four months ago) the D-J Transportation Average broke out to a new record high. Why, with the Transports and most of the major indices and averages having bettered their 1987 highs, has the Dow been so reluctant to follow? What's the meaning of the lagging Dow? Is there a warning message in the Dow's stubborn refusal to confirm -- or will it be only a matter of time before the Dow rallies over its 1987 high of 2722.42?

The odds? Well, historically, the odds favor a Dow confirmation. I can't remember a time when the other major averages all bettered a primary point without the Dow confirming. But that's history -- that was then and this is now.

On the face of it, the stock market has been behaving as though there will be no recession at all, not even a "soft landing." But if all is well and all is swell, why doesn't the Dow confirm?

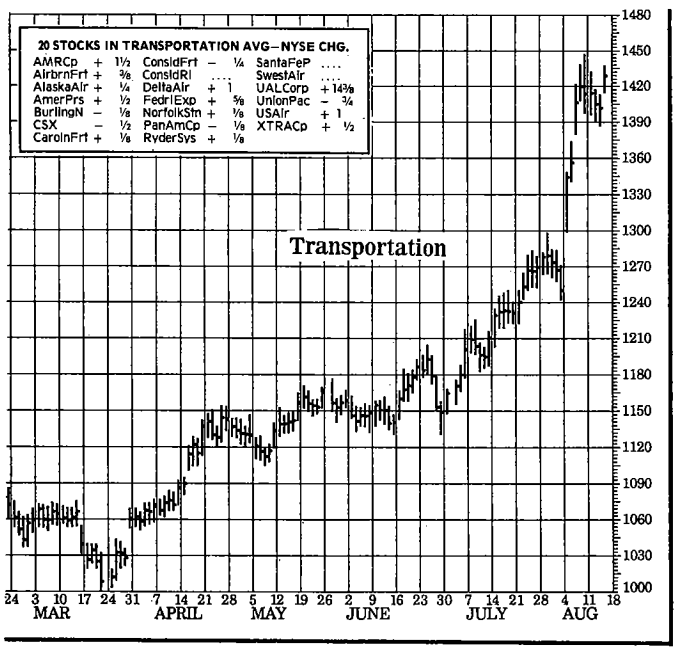
The "normal expectation" here (following all the recent upside action) would be a high-level consolidation. But there's that non-confirmation, and I've learned the hard way never to write off or discount a major non-confirmation in the D-J Averages. There have been too many times in the past when non-confirmations have led to trouble -- both of the secondary and primary variety.

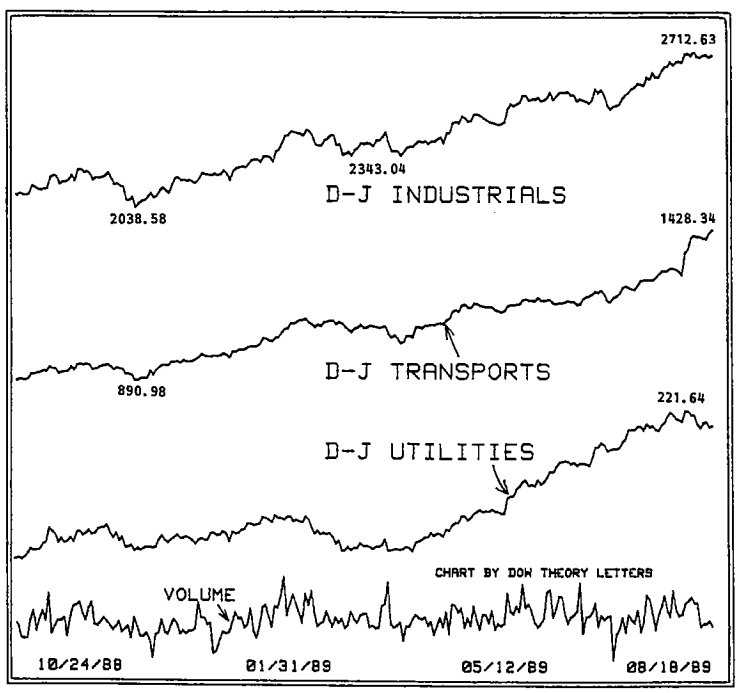
The July-August rise in the Transportation Average turned into what I would call a "mania." I offer an interesting comparison. At the 1974 bear market low the Transportation Average sold at a value of 125.93. Now consider this: During the period of August 7 through 10, 1989, the Transports rose from 1250.00 to 1423.01 -- up 173 points in four trading days. The four-day rise was greater than the value of the entire Transportation Average in 1974. The August rise is particularly fascinating when viewed on a daily chart (*Wall Street Journal* chart shown below). Here we see the explosive rise separated by large gaps (the rise was created for the most part by the takeover bid for UAL). This kind of action is very rare in a stock average. In fact, years can go by before you see anything like this series of stilts and gaps in an average. The gapping action, by the way, is characteristic of panic- buying.

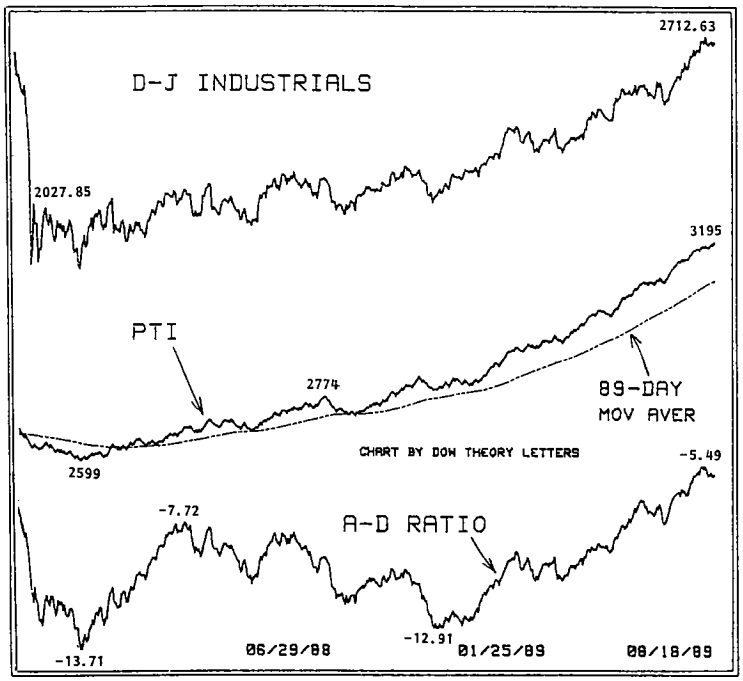
I'm paying particular attention now to my Primary Trend Index (PTI). This indicator (see page 2 chart) is an amalgam of eight action-of-the-market indices. The trend of the PTI is determined by the trend of the majority of these indices. So when the majority (five or more) of these components rise day after day there is almost no way that the PTI's strength can fail to rub off on the Averages and on most stocks. Conversely, when the majority of the PTI's components are moving down day after day, there is almost no way that the market can hold up.

From a major trend standpoint, it's easy to read the PTI. When the PTI is above its 89-day moving average it is in a bullish mode. When it's below its 89-day moving average it's in a bearish mode.

The PTI is now over 100 points above its moving average -- which is very unusual. And that huge spread creates potential problems. It's obvious that if the PTI were to turn down tomorrow it would still take considerable time before it could render a bear signal. In a situation like this I find it important to monitor the PTI on a trendline basis. In other words, when the PTI finally does turn down, I will draw a declining trendline, and if the PTI holds persistently below that trendline I will take an increasingly negative view of the market. If the declining trendline takes the PTI below its 89-day moving average (something that has not occurred since







October 1987) such action would constitute a major bear signal or a turn in the tide.

With the major averages near their peaks, much is being made of the market's declining momentum plus the drop-off in daily new highs. What this shows is that as the Averages advance, fewer and fewer stocks have been participating in the upward parade. Obviously, this is a major technical negative.

There's been one major valuation change since the last Letter. The latest reading on the "percentage of undervalued blue-chips" has dropped to a new low of 13%. Thus, this market is reaching an ominous extreme in overvaluation as it pushes further and futher into the area of tops (see Questions and Answers section for more on this).

INVESTMENT POSITION: I know that investment genius Warren Buffet is still spending hundreds of millions of dollars (mostly on special deals involving convertible preferreds). And I know that my old schoolmate, Marvin Davis, is willing to borrow $6.1 billion to take over UAL. But I find it hard to find stock values here. And certainly on a yield basis they're not giving stocks away.

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For that reason, I feel that the most intelligent position for us commoners is largely in money market funds or muni money market funds. Many of the money market funds advertise rates well above 9%, and that's very attractive. Remember, on a long-term basis, common stocks have provided annual total returns of around 10%. So 9% with safety is an attractive return.

Personally, I still have a small amount in no-load funds and I still have a few bonds. But the truth is -- I'm nervous about both. If the PTI goes -- I go.

The question mark rules the box. If the Dow goes through 2722.42, a wobbly bull will take over. If the Dow fails to confirm and the market turns decisively down, the bear will return. They never make it easy, do they.

Question: The D-J Transports recorded an all-time high on April 18. Four months have elapsed without a confirming new high in the Dow. What are we to make of this extended time lag?

Answer: Four months is a long time lag for a non-confirmation. Historically, the quicker a confirmation, the more powerful the signal. For instance, there was a situation back in the 1932-37 bull market when the Transports failed for better than two years to confirm the rising Industrials. The great Dow Theorist, Robert Rhea, wrote at the time that "if or when the Transports finally do confirm, the bull market could be almost over." I've wondered whether the same thing might not occur today if the Dow finally does confirm the record high in the Transports.

Question: Russell, I note that you're still holding a few no-load funds. What do you think about buying stocks now?

Answer: A few weeks ago I talked at length with Gerry Weiss, publisher of the well-known *Investment Quality Trends (IQ Trends)* advisory located here in La Jolla. We discussed whether under Dow Theory the price movement was more important than valuation in determining areas of potential market tops and bottoms. I said that Dow Theory entails the use of both price action and stock valuation. However, there is nothing in Dow Theory that suggests that one should wait for a major bear market bottom before actually buying stocks. And there is nothing in Dow Theory that suggests one should wait for a Dow Theory bear signal before selling one's stocks.

For instance, back in 1974 my subscribers and I bought stocks prior to the bull signal on the basis that stocks were absurdly cheap (a few months later our judgment was confirmed when the market rendered a Dow Theory bull signal). Again, in 1987, we sold out during June, July, and August, our action being based on the ridiculously high valuations being placed on stocks. Later, on October 15, the averages gave a Dow Theory bear signal, a signal that confirmed our earlier decision. If any doubts remained, the October 19 crash certainly confirmed our exit from the market.

What about now, with Dow at a 3.4% yield, a price/earnings ratio of 11.4, and selling at around 2.5 times book value? Gerry Weiss, who has made a very exhaustive study of values, immediately stated that dividend yield is the most important consideration when talking about values. Gerry noted that dividends are increased or decreased very slowly (and only after a good deal of deliberation by corporate officers) but earnings can change very rapidly, particularly during a recession. Gerry Weiss stated "that we have probably seen a peak in dividend increases for the year, and the 12-month composite dividend could soon turn down. Twenty-five of the 30 Dow Industrial stocks already pay higher dividends than they did in 1988."

Gerry finds that currently only two Dow Industrial stocks fit her very strict criteria for "undervalued stocks." The two are GM and IBM. Now this is very important. IQ Trends' "percentage of blue-chips in undervalued status" is now down to 13%. Thus the risk of buying (or even of owning) stocks in this area is very high, based on an historical study of values.

Another very fine advisory publication, *Growth Fund Guide* (Box 6600, Rapid City, SD 57709), has done a great amount of work on stock valuation. They run what they call their "Chameleon Index" which measures market risk. In their latest *Guide,* they state, "According to the Chameleon Index, risk is higher right now than at any time in the past 16 years except for four months just before the 1987 crash."

So my own feeling is that stocks could go higher but the potential reward, when measured against potential risk, is poor. In other words, the odds on taking losses here is high compared with the odds on making substantial profits. Stocks are simply not attractive values here, not if they are measured in classic terms of return on investment.

Question: So Russell, when all is said and done, you seem to believe that all the action since the 1987 high was part of a major, deceptive, convoluted top, and that the crash was simply a rare, once-in-a-lifetime interruption of that top formation.

Answer: Yes, as matters stand now, that is the way I see it. I think one of the most convincing proofs of the convoluted, long-term top view is offered by this chart put out by *IQ Trends*. They monitor a universe of 350 blue-chip stocks, all dividend-payers for 25 years or longer, all highly-rated ("A" by S&P), all with improved earnings in at least seven of the last 12 years.

This chart traces the percentage of blue-chip stocks that are undervalued. The valuation is based on an historical study of each stock's dividends. For example, historically, when Kodak has sold at a yield of 5% or more, it has been undervalued. When Kodak has sold at a yield of 1.3% or less, it has been overvalued.

You can see on the chart that there are two broad extremes. When the percentage of undervalued stock rises to around 75% or more, the market is a bargain, and this is the area where bull markets are formed. On the other hand, when the percentage of undervalued stocks sinks to 17% or below, stocks are overvalued, and this is the danger area or the area where tops are formed.

From the 80% level (bargain) area which was seen in 1982, the percentage of undervalued stocks sank steadily to 12% (danger area) in 1987. Then came the crash. But instead of the undervalued percentage expanding to 75% or more, which would have given us grounds for believing that a major bottom had appeared, the undervalued percentage climbed to a mere 27% at the crash bottom -- and then the undervalued percentage began to contract again! Currently, the undervalued percentage is down to 13% -- most definitely back in the area of major tops.

So from the standpoint of this chart what we've seen is extraordinary overvaluation in 1987 -- then a market crash. But the chart shows us that the crash did NOT take stocks back to bargain levels again, at least not the kind of bargains that characterize a major bear market bottom.

Question: The stock market is supposed to be a leading indicator of business conditions. If that's true, isn't the stock market (by its recent action) saying that business is going to expand in the period ahead? Also, if what the stock market is saying (i.e., expanding business) comes to pass, wouldn't that be bearish for bonds?

Answer: In a bull market the earlier the move within a bull market, the more valid conclusions can be drawn from that move. The corollary is that the later a move comes within a bull market, the less it can be trusted. Eventually, there must be an advance in a bull market which will be the final advance prior to the next bear market. That last move will obviously be a false one.

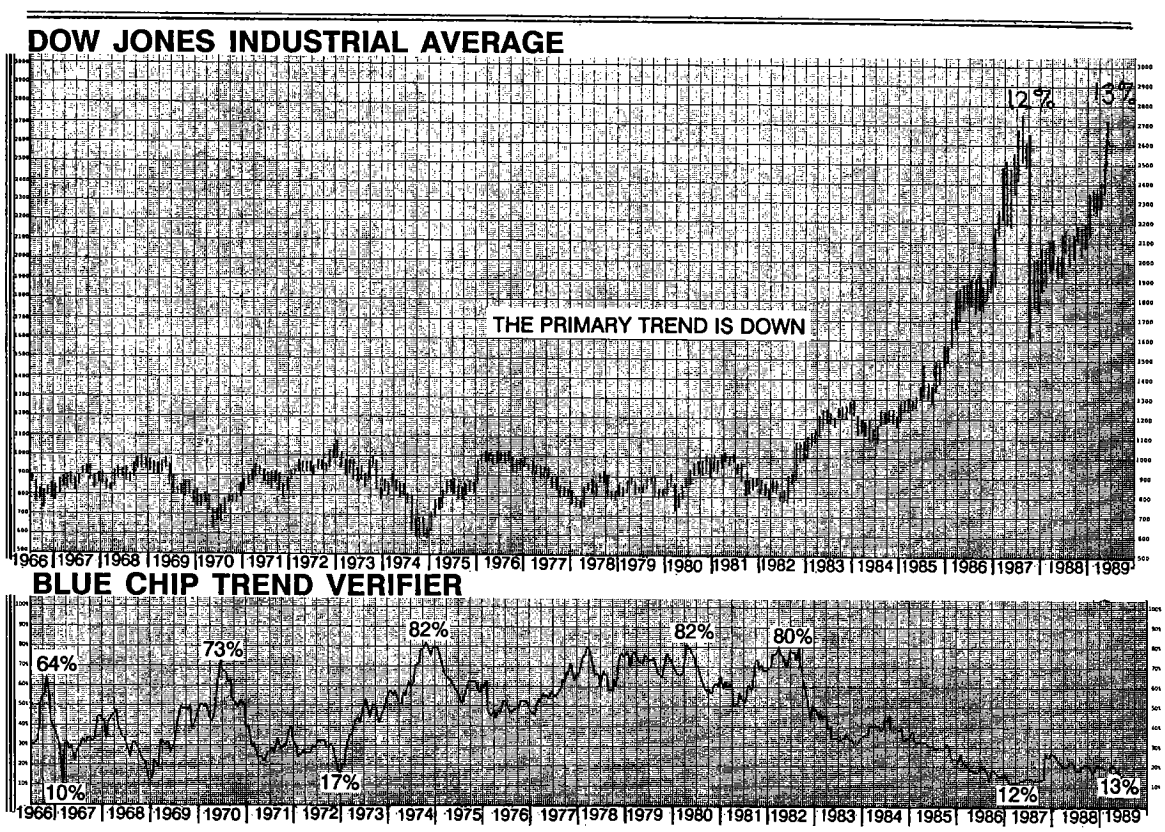
We've seen that phenomenon over and over again in history. The rise in 1929 came eight years after the bull market began. We now know that the final 1929 surge to the Dow 381 high (Sept. 3, 1929) was not a prediction of better things to come. No, that final rise was simply the surge that spelled "fini" for the great bull market of the 1920s.

The final rise in 1966 took the Dow to a new record high of 995.15. Many analysts at the time were of the opinion that the new Dow high meant "more good times ahead." But Dow 995.15 came 17 years after the start of that bull market. The 1966 high was followed by eight years of difficult, gyrating market action ending with the disastrous 1973-74 collapse.

In other words, each major advance in a bull market holds less validity than the previous advance. Finally, there will be an advance (often a spectacular one) that will be the last advance in the bull market -- preparatory to the next bear market.

To get back to the original question, this bull market has been in force since 1974. After 15 years, new advances obviously have less validity than those that occurred many years earlier. Thus, I personally have been wary of the predictive value of the current advance. It could be comparable to the advance of 1966 or even of 1929.

As for the bonds, although everyone and his brother has been predicting a precipitous collapse in interest rates, we are now seeing a real hesitation in rates, and over the last few weeks we have actually seen a rise in many rates. The recent rise is probably a



reflection of the stock market's upward surge. The rise could also be a reaction to the sudden weakness in the dollar (the last thing in the world the bond market wants is a declining dollar).

My own feelng is that **IF** business turns up then bonds could get hit and maybe hit hard. On the other hand, if business turns down it is the widely-held conviction that bonds will rally strongly. Here I disagree. A downturn in business (i.e., a recession) would run the government's deficit substantially higher, and this would require more Treasury financing and put pressure on the bond market.

Question: It's generally conceded that Alan Greenspan and the Fed have been doing an excellent job in keeping inflation within bounds while avoiding a recession. Do you agree?

Answer: I do, but I also feel that so far, Greenspan has been very, very lucky. And frankly, I don't know how much longer Greenspan's luck is going to hold out. Against many deflationary forces in the economy such as falling commodity prices and high levels of debt and debt repayment, there have been huge infusions of foreign money and massive domestic borrowings. These, I feel, have counter-balanced the low growth of the money supply and various disasters such as the S&L fiasco, the HUD mess, and the collapse of home values in the Southwest.

Ultimately, I believe that Greenspan's biggest problem may be the dollar. So far, he's been lucky on the dollar too. The buck hit a major oversold low in December '88 (following years of decline), and so far has been holding above that low. But anything under 90 on the US dollar index, and well -- hold your hat.

Question: You haven't mentioned DowPow for quite some time. What's happening there?

Answer: I haven't mentioned DowPow because I guess I was embarrassed about this indicator. DowPow's action has been so at variance with the rest of the market that I felt (1) either DowPow was malfunctioning or (2) it was telling a story so bearish that I would look silly to present it.

But DowPow is computed mechanically, and obviously I can't manipulate it one way or the other. I asked John Carder to run off a long-term chart of DowPow and here it is. It isn't as if DowPow can't advance. I mean, look at the action during 1982 to 1987. But since the crash DowPow has been a terrible laggard. Is it trying to tell us something?

DowPow is the Dow adjusted for the daily action of the advance-decline ratio. What DowPow is telling us is that on days when the Dow was up strongly breadth was weak, and vice versa. Frankly, I haven't seen that kind of action before. Is DowPow giving us a warning? Why were there so many days when breadth and the Dow were out of sync? I don't know. I offer this picture of DowPow for what it's worth. Why has DowPow lagged so badly? In due time we should know.

NOTES & QUOTES: I've been exchanging reports with my old friend, Joe Granville, ever since he started publishing back in 1961. In the past Joe's goofed on the market as we all have. But Joe has a brilliant streak in him, and don't you kid yourself -- when Joe's hot, there is nobody hotter.

Joe has been terrific on the market ever since the crash. In view of his recent fine record, I was particularly interested in his latest report. Here are a few scattered quotes from that report: "This is the first time in the entire post-crash period going back to October 1987 when traders have to seriously prepare in advance for an important market top . . . Last week I called for increasing cash reserves to 25%. This week cash reserves are raised to the 50% level . . . Frankly, I would like to be out of the market now but my technical work tells me that we still have a rendezvous with destiny at higher levels . . . But there isn't much time left, and the top of this move could come even sooner than I first projected. A simple glance at the Dow Transport Average tells one that we are looking at a major parabolic rise, something that smacks of terminal." (*Granville Market Letter*, PO Drawer 413006, Kansas City, MO 64141) Note: Late last week Granville issued an all-out sell signal.

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Numbers: The percentage of Americans over 65 is rising rapidly. This is known as the "baby boom time bomb." In 1980 11.3% of Americans were 65 or older. By the year 2030 21.1% of Americans will be 65 or older. Who will take care of all these geezers -- Social Security? Russell guess: The retirement age in this country is going to be pushed further and further out.

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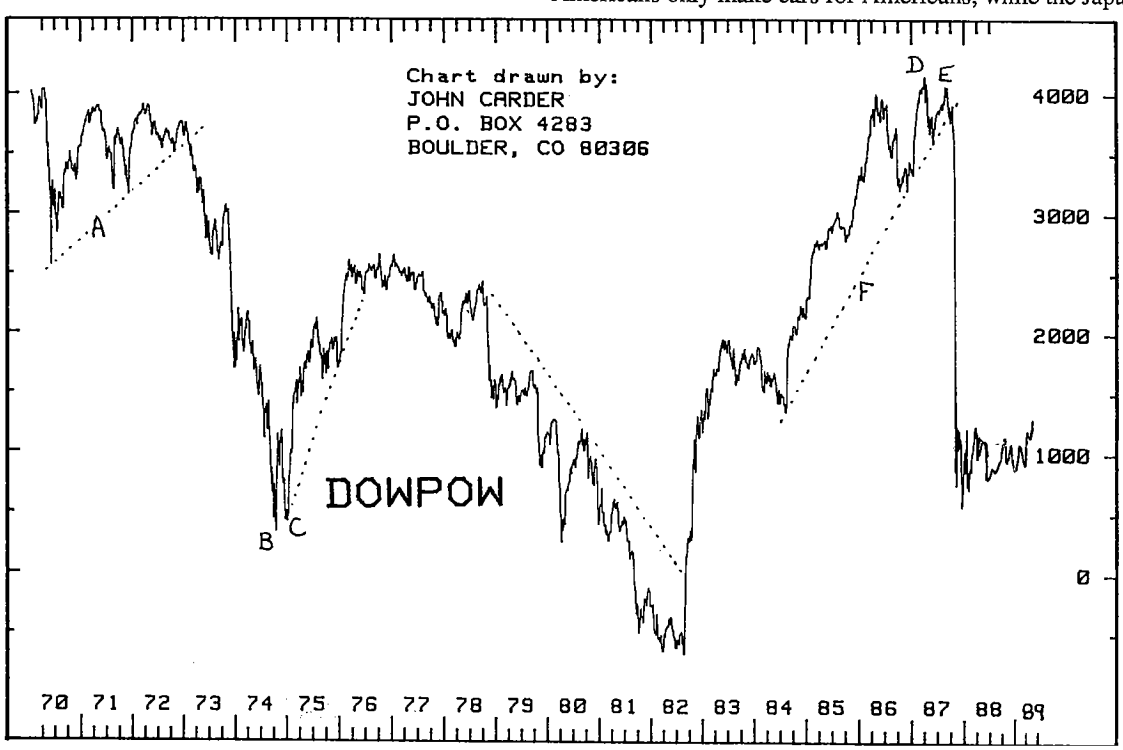
The cover story of the August 22 issue of *Financial World* (a vastly improved magazine) is entitled "Car Wars." The article points to the fierce competition and overproduction that is facing the auto industry. Says *FW*, "Factories in the U.S. can now turn out 2 million more cars than dealers can sell in a good year. And it looks like Europe will be next." "Of the three major markets (Japan, Europe, U.S.)," runs the article, "it is the U.S. that today finds itself in the most turmoil. To begin with, the U.S. producers' prospects are limited by the way the industry developed. The Americans only make cars for Americans, while the Japanese make



cars for the world and the Europeans make volume cars for Europe and luxury cars for the world . . . By next year American owned companies may build only 60% of the cars sold here." *FW's* conclusion: "The whole world is going to have competition like you have never seen before."

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USA Today (Aug. 7) headlines that women's swimsuits coming up are "Not Too Itsy-bitsy." They evidently haven't seen La Jolla's beaches. La Jolla has gone international, and you almost have to be a U.N. interpreter to understand what's going on at my local Wind 'n Sea beach. Argentinians, Brits, S. Africans, Italians, and not least of all French ladies now inundate the beach. The bathing suits vary from "dental floss minis" to "almost- nothing suits" with some of the ladies going topless. A lifeguard friend told me that he "warned the topless ladies, mostly French, but nothing's going to happen until the police get a few complaints." So far, it seems, there have been no complaints, at least none from the local males.

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Who's the most powerful man in America? It must be Johnny Carson. The new book about Carson (which truthful or not, is an expose and highly unflattering), has been greeted with almost universal silence. Around California, nobody's even mentioning the book, much less reviewing it.

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The word on Toyota's new Lexus car is that it's very hot. Lexus was brought out to compete with BMW and Mercedes, and from all reports the Lexus is going to give the German cars a very rough time. The write-ups I've read on Lexus say that it is as good or better than the German cars and the price is a heck of a lot better. The LS 4000 sedan runs $35,000 and the smaller ES250 is $21,050. Next: Nissan is due to bring out its luxury car, the Infiniti. Russell bet: The Japanese luxury wheels are going to hit the high-priced German cars -- hard.

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In the opinion of many, drugs are wrecking this nation. In a recent study of arrests in 14 major areas, the majority of those arrested had recently ingested one of 10 different illicit drugs. Here in San Diego, 80% of those arrested are on drugs. Philadelphia was the worst area; 82% of those arrested tested positive for drugs. LA has now definitely superseded Miami as the major port of entry for drugs to the U.S. (drugs are coming up from Mexico -- by the carload).

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This came from the *Washington Post,* so you know it must be true. A woman in DC was on a tour of the capital. The poor thing got lost just west of the Washington Monument and spotting a nearby police officer she asked, "Which side is the State Department on?" The officer replied, "Ours, I hope."

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President Bush is promising all sorts of fabulous new programs such as a space journey to Mars (estimated by experts to cost $400 billion), a $5 billion anti-drug program, a fabulous new national education program, and B-2 bombers at $560 million a copy. There's only one problem -- Bush never mentions where the money is coming from. When reporters remind Bush that we are already running huge deficits, "so where's the money coming from ?," Bush turns vague and changes the subject.

Says Rep. Leon Panetta, chairman of the the House Budget Committee, "It repeats a pattern that has been going on for the last six months and is part of the Reagan legacy. You do a new program or a new endeavor, and you do the hype that day . . . and then you walk away from it. You don't follow through, and you don't say how you're going to pay for it."

* *

The American sports scene is beginning to resemble a rabbit hutch -- it's multiplying. A new baseball league is in the works. CBS paid $1.1 billion for a baseball deal starting in 1990. The other networks figure it's cheaper to start their own league than to make that kind of bid. NBC and Sportschannel America (SCA) will probably be the founders (and Trump, who else, will have the NY team). Football -- Ted Turner is trying to start a new football league. Don't laugh, "the Mouth of the South" has been laughed at before, but he has a way of producing.

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The S&L bailout will cost every man, woman, and child in the U.S. $1,000. The cost ($306 billion) is greater than the combined bailouts of Chrysler, Lockheed, New York City plus the Marshall Plan which rebuilt Europe after WW II.

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Jack White Co. here in La Jolla (1-800-233-3411) is the first discount brokerage firm to offer rebates to buyers of fixed annuities. The rebates can amount to up to 50%. Jack White was the first discount broker on the West Coast and also the first to offer no-load mutual funds.

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The Germans, having been wiped out by the great inflation following WW I, naturally have a great fear of inflation. That fear comes out in the numbers. In 1987 U.S. consumer debt amounted to 63% of our total GNP. In contrast, German consumer debt was only 11% of their GNP (statistics courtesy of Ed Hyman of *CJ Lawrence*).

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My old friend, RE McMasters (*The Reaper*, PO Box 84901, Phoenix AZ 85071) notes that "With Federal debt (since 1982) up 260%, the money supply up 90% and prices up only 38%, something has to give . . . A similar phenomenon has been noted from a commodity perspective . . . the CRB Commodity Futures Index presently is 31% below the highs made in 1981, while the Consumer Price Index is 35% above the highs made over the same period. Something has to give here too. Either futures prices must rally or consumer prices need to come down. It has been a depression in agriculture, oil and the precious metals, resulting in bankruptcies, which have dropped futures prices into the tank. More likely, is upcoming higher inflation in a recession, leading to an inflationary recession."

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Law: At any given time GM has to deal with 250,000 lawsuits. GM's law bills amount to $30 for every car they sell. . . The state of Alaska (with a lawsuit against Exxon for environmental damage) has already alloted $5 million for legal fees as a starter.

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A friend of mine, just back from six months in Australia, tells me that "it's a workers paradise (the government pays for everything), but a businessman's nightmare. The unions rule the country. Buck the unions and you're dead. Business is so riddled with red-tape that I can't figure how they get anything done." Australia's current account deficit continues to widen and its foreign debt this year is expected to balloon to A$150 billion. Interest rates in Australia are in the high teens because of weakness in their dollar. Thus, those who bought Aussie bonds a year or so ago for their high rates took a beating via the sharp decline in the Aussie dollar.

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Friends returning from China and Russia tell amazing stories. From China: "The interior looks like the dark ages. Living conditions are primitive in many places with men actually pulling plows (forget tractors or even horses). In many areas fuel is scarce, and tiny wood fires are used for cooking." From Russia: Howard Ruff reports, "Our hotel, the Cosmos, is like a giant, shabby Motel 6, and is one of Mocow's best . . . We had a pretty good lunch at the National Hotel but with the usual surly waitresses. Service in Russia is perfunctory at best and often rude." Another friend tells me that (incredibly) living conditions in Moscow are comparable to those of a third-world country. No hot water in his room most of the time, rooms dirty, rotten service in stores, constant wait for food items. Many Russians stand on line three or four hours a day just to buy basics in food. After hearing some of these stories, I wonder how anything gets done in Russia at all, and how Russia has survived this long as a nation. Even more amazing -- how have the Russian people put up with all this frustration and inefficiency? Answer -- for decades the Russian leaders stressed the danger from the U.S. and the need to sacrifice living standards in order to keep Russia safe. But with the advent of the computer, TV, and instant world communications, the Russian authorities couldn't keep the Russian population in the dark any longer. Thus -- the rise of Gorbachev and glasnost. Gorbachev's brilliant strategy: blame all inefficiencies on the establishment. Use all disasters as opportunities to oust establishment leaders. Play to the people and at the same time put constant pressure on the Party.

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In a "Cracks in the House That Debt Built" article, the *NY Times* (Aug. 17) notes ominously that some of the Kohlberg, Kravis Roberts takeovers are not looking that healthy. The unhealthy list includes Beatrice Foods, Seaman Furniture, Owens-Illinois, Hillsborough Holdings (formerly Jim Walters), SCI Television. Meanwhile, Merv Griffin is learning about the danger of playing in the other guy's back yard. Merv's Resorts International posted a large second quarter loss, and bondholders (who have been killed already) are wondering how Resorts is going to pay its annual $130 million in interest. Also facing Resorts are a declining market, higher operating costs, eroding market share due to inadequate facilities, and maybe trouble from upcoming labor talks. And along the junk bond front Zapata Corp. will also miss payments.

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Money market funds are up over $330 billion, and I've heard many analysts refer to this mountain of cash as "money on the sidelines" -- on the sidelines as if it's just temporarily parked there waiting to go somewhere else. Well, I'm not sold on this concept. When the money market funds pay better than 9% (which they are), they constitute a legitimate and very attractive form of investment. Most savers and investors are happy to collect above-9% interest, and I'm not convinced that they mean to take that money anywhere (of course, the implication is that as soon as the Dow goes over 2722 all that sideline money is going to pour into the stock market). Again I say, don't bet on it.

GOLD: On May 1, 1933 the US government called in the gold. After that date it was unlawful for US citizens to hold gold coins, gold bullion or gold certificates. Why did the government do that? They did it because in those days the dollar was backed by gold. To expand the money supply (during the Depression), the government had to have more gold to back the additional dollars.

Today the dollar is backed by nothing more than the US government's statement that the dollar is legal tender for all debts. In other words, the dollar is "money" by decree. When the US issues its paper, that paper is accepted as legal tender on faith. Today, there is nothing tangible, nothing of value behind the dollar. But the dollar continues to enjoy purchasing power because it is accepted around the world.

Every year the US government spends $250 billion more than it takes in. It makes up the difference by borrowing. Thus, the federal debt continues to rise. Ultimately, this process will be slowed or halted -- or faith in paper dollars will collapse. As things stand, I don't see any chance of a substantial decline in the annual deficit. The Congressional Budget Committee has announced that the 1990 budget will be 20% over Gramm-Rudman. Thus, more and more dollars continue to be printed. Despite this, the world continues to accept dollars.

But make no mistake about it -- the buck still buys things. One of the things the dollar buys is true money -- gold. In 1930 it required $20 to buy an ounce of gold. In 1934 it required $35. In 1970 I was buying one-ounce gold coins for $70. Today it takes about $370 to buy an ounce of gold. How many dollars will it take to buy an ounce of gold in the year 2000? I honestly don't know, but I'm betting that it will take substantially more than 370 paper dollars.

That's why I'm continuing to accumulate gold in the form of bullion gold coins, Krugerrands, Maple Leafs, Coronas, American Eagles. I suggest that my subscribers do the same. Put a fixed amount of dollars into gold each month. Put the gold in your vault. Forget about it. When your vault gets too heavy to lift, rent another vault. So what if your spouse calls you "Goldfingers." One of these days, the gold is going to look mighty good.

Below are two charts worth examining. The first is a ratio chart of gold tracing the metal back to 1972. Interestingly, the gold action following the 1980 crash appears on this ratio chart as a long, high-level consolidation (which is what I think it was). What we see here is typical post-crash action with the price movement working back and forth within a trading range for almost a decade after the crash.

The second chart (weekly) shows the Lexington Gold Fund, and here we see that the price action has moved above its long-term moving average. The gold shares, as I see it, give every indication of having bottomed out. A rally in the Lexington Gold Fund above 5.50 would constitute an important bullish signal (Lexington chart courtesy of *Growth Fund Guide*, Box 6600, Rapid City, SD 57709).